

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY BRUSSELS PRIORITY

C O N F I D E N T I A L STATE 049405

TOTAS 03

FOLLOWING REPEAT TEHRAN 1981 ACTION SECSTATE JIDDA
KUWAIT LONDON DHAHRAN 12 MAR 74

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C O N F I D E N T I A L TEHRAN 1981

STATE ALSO FOR T/IEP

E.O. 11652: GDS

TAGS: ENRG, IR

SUBJ: ENERGY: CRUDE OIL PRODUCTION TARGET TO BE LOWERED

REF: TEHRAN 1157

1. SUMMARY: BRAZELL OF TEXACO INFORMED EMBASSY NIOC HAS INSTRUCTED MEMBERS TO PRESENT PLAN TO REDUCE PRODUCTION GOALS TO LEVEL THAT CAN BE SUSTAINED FOR AT LEAST EIGHT YEARS. BRAZELL FEARS SUCH A MAXIMUM MAY BE CLOSE TO PLANNED OCTOBER 1974 LEVEL OF 6.5 MMBD BUT HOPES IT WILL BE CLOSER TO PLANNED OCTOBER QQOUT LEVEL OF 7.1 MMBD. REASONS FOR CHANGE, BRAZELL SAYS, ARE BOTH TECHNICAL AND FINANCIAL. WE WOULD ADD THAT OTHER CONSIDERATIONS MAY BE NIOC DESIRE TO "PROTECT" ITS STATED QUANTITY AND SHAH'S DESIRE TO DEFEND MEDIUM-TERM PRICE LEVELS. END SUMMARY.

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2. BRAZELL OF TEXACO MARCH 11 BRIEFED CHARGE ON LATEST ROUND OF CONSORTIUM/NIOC TECHNICAL TALKS. CONSORTIUM TEAM FIRST HELD DISCUSSIONS WITH NIOC LOW-LEVEL TECHNICAL GROUP IN AHWAZ, THEN RETURNED TO TEHRAN FOR WRAP-UP TALK WITH DR MINA AND BANIRIAH (MINA'S SUBORDINATE, A RESERVOIR ENGINEER IN CHARGE OF TECHNICAL MATTERS IN AGREEMENT AREA). AHWAZ TALKS REVEALED NO SURPRISES, BUT MINA AND BANIRIAH INFORMED CONSORTIUM MEMBERS THAT NIOC HAS DECIDED TO HOLD PRODUCTION TO A LEVEL THAT CAN BE SUSTAINED FOR AT LEAST EIGHT YEARS. THEY ASKED MEMBERS TO CALCULATE SUCH A LEVEL CONSERVATIVELY, ON BASIS OF PRESENT PROVEN RESERVES AND TO PREPARE A NEW INVESTMENT/PRODUCTION PROGRAM.

3. BRAZELL INDICATED THAT HE FEARS SUCH A PRODUCTION LEVEL MIGHT BE CLOSE TO THE 6.5 MMBD LEVEL SCHEDULED FOR OCTOBER 1974, BUT HOPES MEMBERS CAN WORK UP FIGURES JUSTIFYING AT LEAST THE SCHEDULED OCTOBER 1975 LEVEL OF 7.1 MMBD. BRAZELL FEELS THIS POLICY SHIFT IS DUE (A) TO DRAMATIC DROP IN PRODUCTION ESTIMATES FOR BANGESTAN FORMATION AND DIFFICULTY IN MAKING UP THIS LOSS ELSEWHERE, AND (B) GOI FEELING THAT THEY WILL NOT NEED REVENUE. MEMBERS, SAYS BRAZELL, WILL BEGIN ON MARCH 15 TO DEPOSIT TAXES AND ROYALTIES OF OVER \$1 BILLION MONTHLY TO GOI ACCOUNTS.

4. EVEN THOUGH THESE NEW NIOC INSTRUCTIONS TO MEMBERS WILL NOT BE TRANSLATED IMMEDIATELY INTO RESTRICTIONS ON PRODUCTION (AND IN FACT MAY NOT BE FELT UNTIL 1976), WE DOUBT THEY COULD HAVE BEEN ISSUED WITHOUT PRIOR APPROVAL OF SHAH. ASIDE FROM FACT THAT THIS SHIFT DOES MAKE SENSE FROM TECHNICAL POINT OF VIEW, WE SEE TWO POSSIBLE REASONS FOR THE GOI DECISION: (A) NIOC MAY WANT TO MAKE CERTAIN IT WILL HAVE FULL 1.5 MMBD AVAILABLE FOR LIFE OR PROJECTS TO WHICH IT PLANS TO COMMIT ITS EXPORT OIL UNDER NEW AGREEMENT, AND (B) JUST POSSIBLY, SHAH MAY HAVE COME TO SUSPECT THAT YAMANI MAY BE SUCCESSFUL, AT LEAST FOR NEAR TERM, IN LOWERING PRICES, AND CONSEQUENTLY MAY HAVE DECIDED TO ATTEMPT TO PROLONG LIFE OF IRAN'S KNOWN RESERVES, WHILE RESTRICTING MEDIUM-TERM SUPPLY IN HOPE OF STABILIZING MEDIUM-TERM PRICES.

HELMS

UNQTE KISSINGER

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